

PROBLEMS OF FINANCIAL MARKET DEVELOPMENT IN CENTRAL ASIA (ON THE MODEL OF KAZAKHSTAN)

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Abstract. *This article is devoted to the development of the financial market in Central Asia. The economic situation in the states of the region and their competitiveness are also considered. The study used the IMF, WEF, and WB databases, as well as statistics of the EAEU countries. The authors used logical conclusions, the selection of necessary information, and systems analysis when considering the business environment and state regulation measures in the countries of the region. It is noted that the banking sector of Kazakhstan is the most integrated one into the global financial system. Uncertainty in the development of banks in Kyrgyzstan, the isolation of the banking sector in Turkmenistan, and the dependence of credit institutions in Uzbekistan and Tajikistan on administrative intervention are presented. The rates of competitiveness of the financial markets of Central Asian countries are very low – even Kazakhstan, with a fairly developed market of securities, is in 114th place among the 144 countries of the world. Legislation regulating the operation of the stock markets of the Central Asian countries has not yet been formed, Kazakhstan and Kyrgyzstan do not meet international standards, and Tajikistan and Turkmenistan do not officially have stock exchanges. The example of Kazakhstan shows that the capitalization of the stock market is growing, and the stock market ecosystem has been built. The placement of shares of national companies on the London Stock Exchange allowed for the increase of capital, but small trading volumes, an insufficient number of financial instruments, and a limited number of investors hinder the development of the domestic stock market. It is proposed to involve local business structures, enterprises, and the population in investing in socially significant projects through the issuance of municipal bonds.*

Keywords: *Central Asian countries, competitive, banking sector, financial market, stock exchange.*

JEL: *G14, G18.*

1. Introduction

After the collapse of the Soviet Union, Central Asian (CA) countries chose various ways to liberalize the economy, privatize state property, and switch to a market-based management model. They differ in the intensity of their reforms, their management methods, and the degree of centralization of their economies. In the course of time, mistakes in the management of the economy of these countries, border conflicts, and disputes over the solution of water-power problems have worsened the situation and led to strained relations. Today, the region's countries are developing unevenly, and the existing prerequisites for regional economic integration have not been sufficiently used. The countries entered the path of market transformations simultaneously, but today one can see differentiation in the development of financial markets.

Kazakhstan is actively implementing reforms in the field of finances: the International Financial Center Astana was created at the international exhibition EXPO-2017 site; the project "People's IPO" is being implemented; and KEGOC, KazTransOil, and Kazatomprom shares are being successfully sold. However, despite the steady growth of GDP, lending in the economy is narrowing, the national currency exchange rate is unstable, and the banking sector is feverish [1; 2].

Uzbekistan has favorable conditions for the development of mineral resource industries. For a long time elements of the planned economy have been preserved, and currently the government is actively involved in the financial sector. The market environment and measures for the development of the banking sector and micro-credit institutions have been formed [3].

Turkmenistan intensively develops agriculture in irrigated oases thanks to the Kara Kum Canal, and has huge resources of gas and oil [4]. The model of the financial market is one with a significant role of the state in the economy and the strict regulation of private business acts. The country is focused on direct investment, which creates additional demand in the national market. Laws regulating activities in the securities market and the creation of market development institutions have been adopted.

Tajikistan is poorly resourced, with the exception of water. In the 1990s the country was engulfed in civil war and remains one of the poorest in the CIS [5]. The budget is supported by remittances from migrant workers working abroad. The government is implementing a system to encourage and facilitate access to portfolio investments and the formation of microfinance institutions.

Despite the stabilization of the economic situation after political distress, Kyrgyzstan has not fully restored its potential. In order to create a favorable environment and increase the potential of the financial market, a microfinance system has been established with the support of international organizations. However, the financial infrastructure re-

mains weak, the development of the banking system is limited by the size of the domestic market, and bank services are not available for the remote regions of the Republic [6; 7].

The development of a balanced financial system remains an urgent task for emerging markets in Central Asian countries. The initial period of the rapid development and expansion of credit activity – which relied on foreign capital, currency inflows from exports, and remittances – helped to include banks, businesses, and households in the financial market. However, these initiatives have led to instability and low financial efficiency – today, almost the entire banking sector in the region is experiencing problems.

Countries in the region, with the exception of Kazakhstan, lag behind in the Global Competitiveness Ranking, and financial institutions have not yet developed their participation in the global capital market. These states are open, to different degrees, for international and regional trade, different forms of cooperation, and cooperative business. The current restrictions on cooperation should be considered as a temporary phenomenon, since the Decision of the Supreme Eurasian Economic Council on October 1, 2019 in Yerevan has already approved the Concept of forming a common financial market in the EAEU [8].

The Concept points out that the common financial market covers the banking sector, securities market sector, and the insurance sector of each member state, as well as the complex of relations that govern the interaction between the sectors of the financial market. Therefore, there is a huge potential for the integration of financial markets. The regional financial market will become a softer and more balanced form of inclusion for the insufficiently developed systems of Central Asian countries into the global flow of capital.

It should be noted that there are not many in-depth studies on the formation and development of financial markets in these countries, and they are mainly conducted at the local level and are covered in scientific journals published within the country. There are no works that consider Central Asian countries as a single region with a common financial market. There are no works devoted to the development of the internal stock market, the improvement of legislation and the regulatory framework, nor the involvement of great masses of population and business structures into the regional financial market. In addition, most publications have a political subtext when explaining the decisions and legislative initiatives of the authorities.

On this evidence, this article aims to study the problems of the formation of financial markets in Central Asia, and to identify the reasons behind the weakness of the banking system and micro-credit institutions, using Kazakhstan's opportunities for the development of the domestic stock market as an example.

Research objectives: to analyze the economic situation in Central Asian countries and the competitiveness of economies; to show the difficulties of developing the banking sector and what actions are necessary to form the stock market. The socio-economic processes related to the financial market of Central Asian countries are the object of the study.

2. Materials and methods

The presence of different models of financial markets in global practice creates a need to use different research methods. In the course of writing this article, logical conclusions, methods of selecting the necessary information, the grouping of this information, and both systems and statistical analysis were used. The use of a context-specific approach allowed the authors to consider special conditions for the development of the banking sector and the securities market in the countries of Central Asia. When considering the socio-economic situation in the countries, a systems approach was used which revealed a general negative factor – the raw materials and agricultural nature of the economies and the insufficient attraction of investment. Based on the IMF, WEF, and WB database, as well as the statistics of the EAEU states, an objective analysis of the financial markets of the countries was carried out, and it was concluded that the development of the domestic stock market would help to increase their competitiveness.

Considering the economies of these countries, the authors resorted to comparison to establish similarities and differences between countries and the processes occurring in them by comparing the main indices of development. The similarities in the historical past have determined the similarities in the development of economies and the processes of formation of financial markets. Here an analogy is used, by which knowledge about one country is obtained on the basis of its similarity with another in cultural, historical, and geographical contexts. Knowledge of these cognition methods allowed the authors to identify the reasons for the weak development of the banking sector and securities market, which explains the rather complex and slow transition of individual Central Asian states to market relations.

Using methods of processing and analyzing statistical data regarding the countries' GDP, their global competitiveness, and their situations with finances, it was found that the successful development of countries in the modern world is facilitated by an effective regulatory environment, advanced reforms in the banking sector, and the involvement of the population and business structures in investing in stock market instruments.

3. Results and discussion

3.1. The Economic situation in the Central Asian region

In a region of more than 71 million people with a total GDP of US\$265.2 billion in 2018, there are two leaders: in terms of population – Uzbekistan (over 45% of the region's population), and in terms of the size of the economy – Kazakhstan (approximately 60% of regional GDP) – Fig. 1 [9; 10].

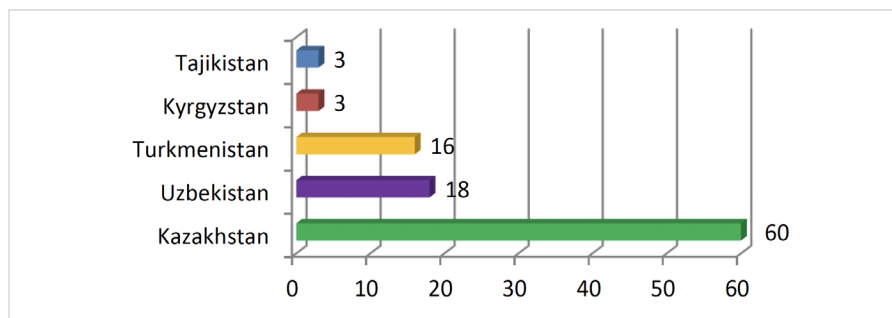


Figure 1. *The share of GDP of Central Asian countries in total in 2018.*

Source: [9; 10].

Kazakhstan is positioned as a country with a global territory and significant economic potential. Reforms aimed at strengthening budgetary institutions, overcoming the weakness of the banking sector, and modernizing monetary policy in order to maintain low inflation and promote a flexible exchange rate are being actively implemented [11].

Uzbekistan's natural resources contribute to the development of an industrial complex based on natural raw materials. For a long time, the country was dominated by traditional methods of management, and market transformations began only in the last 2–3 years. Currently, the investment environment and measures to encourage investments, including guarantees on the protection of investors' rights, have been formed [12].

Kyrgyzstan has long been the first and only country in the region to join the WTO, which can be seen as a product of its vigorous implementation of early economic reforms. Gold mining at the world's largest Kumtor deposit provides a significant portion of earnings. Mining and power industries are oriented towards exports [13].

Turkmenistan has chosen a hyper-cautious approach to economic reforms as the state's dominant influence in the economy remains. Export and currency control is strictly monitored, which deters foreign investors, and there are no incentives for innovation. Due to high oil and gas prices, export revenues are increasing [4].

Tajikistan is more poorly developed among the Central Asian countries [14]. Experts note the unripe and insufficiently developed legislation, especially surrounding tax, and there are problems with poverty and unemployment. Currently, the authorities are focusing on providing various preferences, attracting benefits from investing money in the hydropower industry and the development of mining.

The region of Central Asia is, however, ahead on some indices. According to IMF estimates, exchange rates, taking into account regional devaluation after major external shocks in 2014–2016, correspond to the main macroeconomic indicators. In the period of 2000–2018, the economies of the countries showed an average growth of 7.6%, which was due to the export of raw materials (Kazakhstan, Turkmenistan, Uzbekistan) and money transfers (Tajikistan, Kyrgyzstan, Uzbekistan). At the same time, the main index – GDP

per capita – is extremely low, from US\$1,280 to US\$2,090 in Tajikistan, Kyrgyzstan, and Uzbekistan, while the picture is better in Kazakhstan and Turkmenistan (Table 1).

Table 1. Comparison of some countries' GDP per capita, 2019.

No.	Countries of the world	GDP per capita Nominal, US\$	No.	Countries of the world	GDP per capita, Nominal, US\$
1	Norway	78,330	12	Turkmenistan	8,990
2	USA	67,430	13	Turkey	9,680
3	Germany	47,990	14	Belarus	6,740
4	France	42,640	15	Georgia	4,630
5	UK	40,390	16	Azerbaijan	4,720
6	Israel	44,470	17	Armenia	4,760
7	Japan	43,040	18	Ukraine	3,880
8	Russia	11,310	19	Uzbekistan	2,090
9	Kazakhstan	9,670	20	Kyrgyzstan	1,340
10	China	10,870	21	Tajikistan	1,280

Source: [15; 16].

In terms of competitiveness, only Kazakhstan is at an average level. Tajikistan is in 104th place, Kyrgyzstan is in 96th place, and both Turkmenistan and Uzbekistan are not represented in the ranking at all. A more in-depth analysis of the components of the Global Competitiveness Index shows that the countries of the Central Asian region are significantly behind in development in comparison with some CIS countries (Table 2). According to these indicators, Russia, Azerbaijan, and Kazakhstan are at an average level, whilst Kyrgyzstan and Tajikistan show very low indicators.

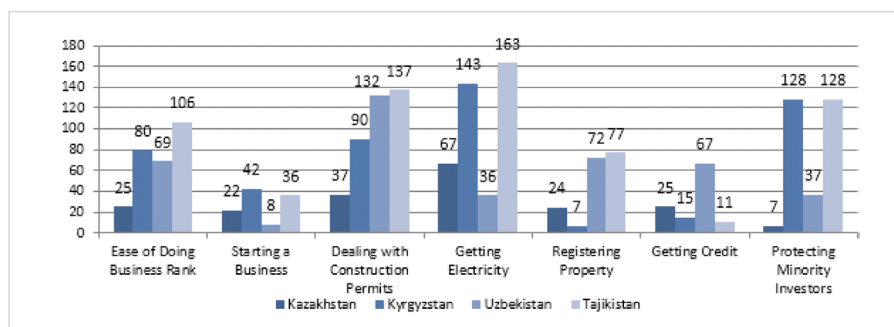
It should be noted that a number of problems hinder the region's potential growth and integration into world markets: access to financing is difficult; there is a high tax burden on the real sector of the economy; there are significant transaction costs; there are high trade costs and long periods of transportation due to an undeveloped logistics infrastructure. For example, the average cost of sending a container to Shanghai or Rotterdam from Central Asian countries is more than five times higher than from European countries. These difficulties are reflected in the "Ease of Doing Business" rating (Fig. 2).

Table 2. Rating of some countries of the CIS and Central Asia by major indices of global development, 2017–2018.

	Index of Global Competitiveness	Health and primary education	Higher education and training	Labor market efficiency	Infrastructure	Innovation	Technological readiness
Russia	43	54	32	60	35	49	57
Armenia	69	55	69	51	80	70	77
Azerbaijan	58	74	68	17	51	33	56
Kazakhstan	55	59	56	35	68	84	52
Kyrgyzstan	96	75	89	113	109	126	102
Tajikistan	104	73	76	34	99	86	114

Source: [17–21]; 2018–2019 data

It should be noted that Central Asian countries are relatively small in number, and the size of their economies is not very attractive to investors. If they are presented as a common economic region, they will be more competitive compared to countries such as Azerbaijan, Armenia, Afghanistan, and Georgia, and will become more comparable in terms of population and size of economy to countries such as Pakistan, Iran, Turkey, and Russia. In response to these challenges, the EAEU is creating a common financial market to jointly solve regional problems via mutually beneficial cooperation [22]. In light of this, the authors regard it as important to consider the state of the banking sector and the stock market of Central Asian countries in this study.

**Figure 2.** Rating of "Ease of doing business" in Central Asian countries, 2019.

Source: [20; 23; 24].

3.2 The banking sector of Central Asian countries

The Central Asian region belongs to the group of emerging markets. The volatility of national currencies and the multidirectional development of the financial sectors create uncertainty in the economy. Despite reformatting in the 1990s, local economies proceeded to be hostages of conflicting political processes. The situation is complicated by imperfect banking regulation, the lack of transparency of activity from financial market participants, the peculiarities of doing business in these countries, etc. A common feature of banking systems in all countries is the limited size of the internal market.

Despite the expanding network of banking institutions in the regions of all of these countries, the level of access of the population in poor and remote areas is still low [25]. The uncertainty in the development of banks in Kyrgyzstan, their isolation in Turkmenistan, and the marked dependence of credit institutions in Uzbekistan and Tajikistan on administrative interventions has all determined the need for a separate review of the banking systems in these countries [26]. The leader in terms of the number of commercial banks is Kazakhstan with 33. As seen in Table 3, Kazakhstan and Kyrgyzstan actively attract foreign capital, and operate banks with international participation.

Kazakhstan's banking sector is the most integrated into the global financial system, and is more prepared for recessionary events. The key to its sustainability is the transition to the Basel III standards during the period of 2013–2018. Among the main problems of the country's banking system is the poor quality of the advances portfolio, which does not allow banks to increase ratings and gain access to global capital markets. There was a decrease in the role of banks in the real sector of the economy and a contraction of the field of their activities. In 2018, lending to the corporate sector decreased by 8.7%, to SMEs by 18%, and to agriculture by 48% [26].

Table 3. Amount of banks Central Asian countries

Types of banks	Kazakhstan	Uzbekistan	Kyrgyzstan	Tajikistan
Commercial banks, total	33	27	25	17
National banks	–	3	2	1
Banks with the participation of foreign capital	15	5	11	7

Source: [27].

Sometimes, the solution to problems in the banking sector depend directly on the political will of the country's leadership. At the beginning of 2017, the government allocated a target transfer for the rehabilitation of banks from the National Fund in the amount of US\$3.4 billion. This transfer was distributed almost completely in support of only one bank – Qazkom. In the view of the authors, the state should not be obligated to cover the risks of the bank's shareholders. Support measures that do not use budget funds are needed [27]. This is why, in January of 2020, the President of Kazakhstan Kassym-

Zhomart Tokayev instructed the improvement of the financial stability of the banking sector and the completion of the program of capital re-equipment of banks [28].

Kyrgyzstan satisfactorily survived the financial crisis of 2008–2009, but the political instability in 2010 led to a decrease in the deposit base of banks by one third due to the outflow of non-residents. Weak financial infrastructure and difficult access to private sector loans are hindering economic growth. Political risks that may provoke economic instability are not excluded. A limiting factor in the development of the banking system is the limited size of the internal market and the unavailability of banking services for remote regions of the Republic. Taking this into account, banks on the periphery began to open branches, providing local residents with a wide range of services.

Today, the country's banks are characterized by maintaining their capital and a moderate increase in assets. The total assets of the financial sector can be broken down into: 88.4% – the share of the banking sector; 9.9% – the share of non-banking institutions; and 1.7% – the share of other organizations. The share of foreign capital in the authorized capital of banks is 44% [29]. Since 2017, banks in *Kyrgyzstan* have been operating under legislation adapted to world practice. It is assumed that measures to consolidate bank capital and the participation of foreign financial corporations in the country's banking system will allow access to modern business technologies and the successful implementation of national projects.

Starting from a low position, the banking system of *Uzbekistan* is developing dynamically. In the past two years along, bank assets have grown by 54% and deposits by 60%. Programs to support the real sector of the economy, focused on the introduction of new production and the modernization of existing methods, function efficiently. To solve the problems of unemployment, banks are set the task of increasing the volume of lending to small business and providing funds for “start-up projects.” These loans can be issued without collateral if there are one or two individuals acting as guarantors.

However, the problem of the banking system is in the weak desire of the population to make deposits in commercial banks and investments in securities. Therefore, to increase the resource base of banks, the state is actively implementing a system of non-cash payments. The number of terminals that accept payment by bank cards in trade and service facilities is approximately 210,000, while in *Kyrgyzstan* this number is 100 times less. At the same time, it is extremely difficult to withdraw money as cash from the card [30]. The banking sector in *Uzbekistan* is dominated by institutions with state participation, and 30% of the market is monopolized by Vnesheconombank. The Central Bank, despite its independent status, is a de facto executor of government directives. The risks of this approach include a high degree of integration of the state, the economy, and the banking sector, and tight control over currency transactions and cash.

Banks of *Tajikistan* are experiencing serious difficulties, as the ratio of capital to assets in 2018 decreased to 5.4%, while according to the requirements it should be 12%. At the beginning of 2017, the state recapitalized four banks to the total amount of US\$400 million (7.1% of GDP) [31]. Shrinkage in the financial sector has led to tighter lending conditions for SMEs. Borrowers have suffered before, as in 2014–2017 when the Tajik Somoni depreciated by half and 60% of loans were issued in US dollars. The share of

problem loans from banks increased from 30% to 54.7% in three years, whilst private sector lending decreased from 23% of GDP to 10% [32].

Strong measures are being taken to regulate and supervise the banking sector. However, this is not enough for the development of the private sector, and there are macro-environment imbalances such as: inefficient public administration; a weak investment climate; the direct intervention of authorities in the credit process; and the non-transparency of state-owned companies. A weak deposit base, the high cost of lending, an increase in the share of bad loans, and a lack of reliable sources of funding are the results of the banks' inept work.

The financial sector of *Turkmenistan* is in the initial stage of formation. There are 11 banks in the Country, 7 of which are state-owned, and among the joint-stock banks there is a joint Turkmen–Turkish Commercial Bank. The banking system is controlled by the state which prevents its integration into regional finances, not to mention the global sphere. The public sector accounts for approximately 85% of all loans. The lack of market-based banking practices and poor access to credit for individuals and private entrepreneurs are the main restrictions for foreign banks, and slow down access to capital in the country [33].

Central Asian countries are not sufficiently integrated into the global financial system. On the one hand, this allows them to neutralize the risks of financial crises. On the other hand, this restricts the flow of foreign capital into these countries. The presence of foreign banks in Kazakhstan and Kyrgyzstan has helped to increase the competitiveness of local banks and improve the competitive environment. At the same time, banks with foreign capital can be agents of external shocks originating from the countries of origin of the head offices.

There are cases when they are reluctant to lend to small and medium-sized businesses, and preferences are given to large clients in order to minimize costs and risks. Also, the reasons for credit “one-sidedness” lie in difficulties with the availability and reliability of information about the activities of private firms. Risks can also come from the excessive concentration of capital within single financial clusters, a typical example of which is Almaty (Kazakhstan). However, a second financial center is now being created in Nur-Sultan (prev. Astana).

Unfortunately, despite the status of a legal entity under the legislation of Kazakhstan, foreign banks remain isolated from major projects of national and regional significance, to which local banks are allowed access. Administrative and regulatory restrictions may result in a ban on certain types of transactions, as well as the forced transfer of large companies for servicing to local banks [25]. Regulatory protectionism may also limit the share of foreign capital in the local banking sector. Due to high dollarization, the banking systems of Central Asian countries remain dependent on exchange rate fluctuations, which does not allow them to expand their deposit bases or lending to the economy, and reduces the quality of their loan portfolios.

3.3. The stock market of Central Asia countries

Since 2000, the Central Asian countries have registered impressive economic growth, mainly due to the export of raw materials. However, the end of the commodity super cycle and the slowdown of growth rates against the background of the global financial crisis revealed risks associated with resource dependence and an influx of remittances from abroad. This situation creates difficulties for global investors and global investment banks that invest in emerging markets. One of the main constraints is the regulatory environment. Laws which are unclear to the investors, the existence of opportunities for money laundering, and a non-transparent property structure that hides the real owners of assets all deter potential investors.

The legislation regulating the operation of stock markets in Central Asia was formed in the 1990s according to one “pattern.” In Kazakhstan and Kyrgyzstan, there is moderate compliance with the standards of the International Organization of Securities Market Regulators (IOSCO), while in Tajikistan and Turkmenistan the level of compliance remains low. OECD experts note that in the countries of the region it is important to create a comfortable investment climate, quick access to financing, the availability of convenient infrastructure, and to improve the professional skills of financial managers [34].

For example, they recommend that *Uzbekistan* implement reforms in three areas: state regulation, trade–transport connectivity, and business environment. Experts help local officials to improve the competence of investors and show the country’s investment opportunities. Among the experts are Kazakhstani brokers, some of whom work in the financial sector of Uzbekistan. Such a cooperation will help to build a capital market, as Western companies have huge funds for investments that can be attracted to the economy through the stock exchange.

An important task is to build a pool of retail investors and local institutional investors. In this regard, there is a need for privatization. It is commonly understood that if one or two Uzbek companies are listed this will not produce the desired effect, but if there are 30–40 companies in the listing then investors will be interested in investing money as they have more choice. In Uzbekistan the government is directly involved in the financial sector, and there are several micro-credit programs that are managed through specific funds and commercial banks. There are 28 micro credit- institutions, whose assets total 123.7 billion Uzbek Soums (€27 million) [35]. Today in the country there are 624 joint-stock companies with approximately 900,000 individuals and legal entities among the shareholders. Within this, 50.1% of the shares are owned by international investors.

The total turnover of corporate securities in 2017 amounted to 7.3% of the country’s GDP. For comparison, this figure is 133.8% in South Korea, 127.1% in Japan, 48.7% in Turkey, 43.8% in Germany, and 8.6% in Russia [36]. At the end of 2018, the volume of trading on the Tashkent Stock Exchange increased 2.3 times compared to 2017, amounting to 687.9 billion Soums (US\$82.5 million according to the Central Bank’s exchange rate as of December 31, 2018) [35; 37].

There are currently only two types of securities in the country – shares and bonds. On the stock exchange, transactions are mostly made in shares. The Central Depository does

not have correspondent relations with the depositories of foreign States [38]. For this reason, it is impossible to purchase shares of foreign companies on the stock exchange. For comparison: on the Moscow Exchange Russian and foreign shares, depositary receipts, and investment shares are traded. RF corporate bonds denominated in Rubles and foreign currency, corporate Eurobonds, and Russian sovereign Eurobonds can also be purchased at the auction.

The President of Uzbekistan, Shavkat Mirziyoyev, at a meeting of government gave the instruction to bring the ratio of freely traded securities to GDP up to 10–15% by the end of 2025 [39]. It was also pointed out that there is a need to review the legislation, to create a favorable regulatory environment, to simplify the work of the financial market, and to remove unnecessary restrictions. The importance of attracting foreign brokers and banks to trading was stressed. To do this, it is necessary to strengthen the protection of the rights of investors and minority shareholders, and to improve the procedure for paying and collecting dividends.

Tajikistan is the poorest of the CIS countries – 19.5% of the population live on less than US\$1.90 a day, and 56.6% live on less than US\$3.10 a day [40]. The country suffered from the recent economic downturn caused by the economic crisis in Russia, which led to a reduction in remittances from US\$4.2 billion to US\$1.9 billion from migrant workers working abroad [41].

The National Bank is making efforts to develop a system to encourage and facilitate access to portfolio investments. The National Bank and commercial banks have started creating a new Central Asian Stock Exchange, but this is the first stage of the work. In 2016, the government of Tajikistan presented the National development strategy for 2016–2030, which emphasizes the importance of investment as a driving force of economic growth and the improvement of the business climate in the country. However, in 2018 the Chairman of the State Investment Committee, Farrukh Khamralizoda, said that competition led to the closure of 30,000 enterprises in 2017. In fact, this was influenced by strict regulatory mechanisms and the tax burden [42].

In Tajikistan, 124 micro-financial institutions (MFIs) are members of the Association and play an important role in financing the economy, accounting for 17% of outstanding loans. MFIs pay special attention to solving social problems and the empowerment of women. Among the clients of these organizations, women constitute 40% and account for 32% of loans.

According to the state statistics, portfolio investments in Tajikistan at the end of 2017 amounted to US\$576.2 million, including debt on Eurobonds in the amount of US\$500 million. There is no securities market in the country, and the government does not consider this sector to be a significant part of the national economy [42]. There is little liquidity in the capital markets, and the country has no official stock market. No policy has been developed to facilitate the free flow of financial resources on markets of commodities, services, or labor power.

Tajikistan does not impose any restrictions on payments and transfers for current international transactions, which is in accordance with the IMF rules (article VIII). Transfers from all international sources are treated as income and are levied. Loans are

distributed on market terms, but commercial banks are under pressure from management elites, so only a few are given profitable loans for commercially dubious projects. At the beginning of 2018, according to the National Bank data, 35.8% were non-operating loans. At the same time, private investment rates in Tajikistan are invariably lower than in other Central Asian countries. Electronic banking and payment verification systems are not developed in the country, and most payments are made by bank transfer [31; 32].

Traditionally, Tajikistan does not restrict the conversion or transfer of funds if these amounts are considered reasonable. Until 2016, the “reasonable” limit meant no more than US\$10,000 per transaction. Later, the National Bank reorganized currency operations and closed all private exchange offices. Today, only bank exchange offices are allowed to exchange foreign currency upon passport presentation.

Kyrgyzstan was the first country in the region to join the WTO, and benefits from the free market environment. The best way to access Kyrgyzstan is through the Canadian company Centerra Gold, the securities of which are ruled on the Toronto Stock Exchange. The company owns 70% of the largest Kumtor gold mine, and Kyrgyzstan’s government owns 30%. At a total expense of US\$733 for an ounce, and with 4.489 million ounces of proven gold reserves, the mine is of great value to the country. The company provides 9.7% of Kyrgyz GDP [6].

The system of micro-financing in the country was created with the support of international donor institutions. The first association MFI was established in 2015 with the aim of creating a favorable environment and building the capacity of the financial sector. According to the data of the National Bank of the country, there are currently 5 MFIs, 232 micro-credit companies, 74 micro-credit agencies, and 172 credit unions [43]. The main problem of MFIs is access to financial resources. Only six credit unions are allowed to attract deposits from the population, and MFIs’ operating expenses are quite high (on average 20% of the advances portfolio). As a result, the interest rate on micro-loans is 10% higher on average. With the exception of banks and the micro-financing sector, other financial institutions play a minor role in the Kyrgyz economy. Thus, the stock of government securities is 3% of GDP, of which banks own 1.3% and institutional investors hold 1.4%. Today, the stock market capitalization is only 4% of the GDP [44].

The official opening of the Kyrgyz Stock Exchange (KSE) took place in May of 1995, when the country was in the process of privatization. In 2000, the KSE was reincorporated and the Istanbul Stock Exchange became the largest shareholder. The KSE is now a closed joint-stock company on a non-commercial basis with 18 shareholders. Active trading is carried out on the primary and secondary markets, and the exchange presents shares of companies in industry and the service sector. The volume of trading on the KSE in December of 2019 amounted to 26.285 million Soms (US\$381 million) [45].

The KSE has 21 companies, each of which has a different degree of state ownership. If these companies sell their government shares, however, they will find some undervalued companies, and may stimulate interest in the exchange as liquidity increases. Currently, most local residents tend to invest in the corporate bonds market, as they prefer the flow of funds to capital increase. In addition, a well-functioning stock market could encourage some private companies to IPO, which would be the first event in the country’s history.

For example, the Stroypark company, with good growth indices for the Kyrgyz economy, could enter the market for the initial placement of securities.

Intensive development of the stock market began in the period of 2008–2009. Since then, the State service for regulation and supervision of the financial market has registered 15 issues of corporate bonds, eight of which are recognized as effective ones. Corporate bonds are allowed to be issued by domestic companies to attract investment in housing, and as a result investors were able to improve their financial well-being.

The majority of investors into corporate bonds are individuals (68%), followed by companies (25%) and commercial banks (7%) [45]. The procedure for buying a corporate bond is very simple – one can simply go to a financial company with an identity card and become an investor. Unfortunately, the population's demand for corporate bonds is very low across a fairly wide range of offers. Experts point out several reasons for this. From the point of view of investors, this is due to low financial literacy, ignorance as to the existence of the bond market, an unwillingness to take risks, the desire for quick profit, and a lack of access to financial companies in the regions (most companies have branches only in the capital Bishkek).

Considering the high level of poverty in Kyrgyzstan (officially 25%), many people do not have enough income to make savings and the majority of depositors belong to the upper-middle class. According to experts, the population is reluctant to use financial institutions for borrowing and saving. In 2018, approximately 40% of the adult population had accounts in financial institutions, of which 6% were inactive ones [29].

On the other hand, there is a fairly high level of shadow economy, even whilst a company must disclose all of its cash flows in order to get listed. Referring to the events of 2010, when there were interethnic clashes and anti-government protests, many businesses do not believe in legislation on property rights and are afraid of raiding. The problem is in the lack of free circulation on the stock market – only 6–7% of the shares of large companies are available to public investors. In addition, some legislative initiatives are controversial. Therefore, three years ago, lawmakers proposed to cancel preferential conditions for paying income tax for individuals who buy securities. Fortunately, these amendments were not supported as, had they been adopted, efforts to promote shares on the market and develop stock instruments would have been futile.

A stock market model with a significant role of the state and state property in the economy, and strict regulation of private entrepreneurship, is typical for *Turkmenistan*. Due to the fact that the country has been showing high growth rates in GDP for a number of years (approximately 10%), there is a surplus of the state budget, more than 70% of which is directed towards social purposes [4; 9; 10]. Turkmenistan focuses on direct investments which create additional demand in the national market, contributing to the stabilization of the financial and economic situation.

Currently there is no stock exchange in the country, only the State commodity-raw material exchange of Turkmenistan operates. Trading is carried out for the following types of goods: petroleum products, cotton, textile products and other light industry products, and white salt. Since 2008, the Interbank Currency Exchange of Turkmenistan has been functioning, where trading for the purchase and sale of foreign currency is held.

This exchange is a structural division of the Central Bank, and in practice there is no market of corporate and government bonds.

In recent years, laws that regulate activities on the securities market and the creation of market institutions have been adopted. Thus, in 2014 new laws “On Securities and Stock exchanges in Turkmenistan” and “On commodity-raw material exchanges and exchange trading” came into force, which allocate the mechanism of state regulation of exchanges’ activity [46].

The state program for the development of the securities market has been approved, and the rules of issue and conditions for admission to the circulation of securities issued by foreign issuers on the local market have been established. The Ministry of Finance plans to issue state stock bonds with a maturity of up to five years. Specific measures have been taken to create a stock exchange, develop its instruments, and attract a wide range of investors. This will allow the creation of a stock market and the use of effective financial instruments.

Turkmenistan is expanding cooperation with international financial and economic institutes. In foreign policy, the predominance of the Eastern vector is noticeable, and China is becoming the main partner of Turkmenistan. Of all the Central Asian countries, Turkmenistan is the most committed supporter of the Chinese Silk Road Economic Belt project as a new model of regional cooperation.

3.4 The Formation of the stock market in Kazakhstan

Kazakhstan is a country with a limited internal market, and suffers from the effect of a “resource curse,” i.e., the abundance of resources (oil in particular) hinders the implementation of reforms and the development of institutes [47]. This negative impact is not because of the availability of natural resources, but is due to the dominance of raw material branches in the national economy. Therefore, the country’s financial capabilities depend on the global prices of resources and the exchange rate of the national currency.

Unfortunately, the oil rent does not allow the country do anything other than develop it. Kazakhstan does not use natural resource rent independently. Most of the hydrocarbons and financial resources are controlled by multinational companies. The presence of China in the oil industry causes discontent among the population, as the Chinese actively invest in infrastructure projects and invest in the acquisition of small companies [48]. As a result, Kazakhstan has at its disposal approximately 20% of the revenues from oil exports. High GDP dynamics are transformed not into the development and diversification of the economy, but into the profits of participants of international consortia.

The quasi-public sector has a strong influence on the economy, and its purchases amount to approximately US\$10.5 billion. In the financial sector it accounts for 32% of all funds of the population and legal entities placed in banks. Therefore, attempts to diversify the economy and develop other branches have so far yielded weak results [49]. Rates of Global Competitiveness for 2017–2018 give an idea of the state of the country’s financial market. In general, the financial market is in 114th place out of 144 countries

[50]. The “Regulation of securities exchanges,” “Soundness of banks,” and “Financing through local equity market” have particularly low rates (Table 4).

Table 4. *Rates of competitiveness of the financial market of Kazakhstan, 2017–2018*

No.	Rates	Place	Score
1	Availability of financial services	95	3.8
2	Affordability of financial services	95	3.4
3	Financing through local equity market	108	2.9
4	Ease of access to loans	98	3.4
5	Venture capital availability	102	2.5
6	Soundness of banks	114	3.8
7	Regulation of securities exchanges	117	3.4
8	Legal rights index 0–10 (best)	85	4.0

Source: [50].

Despite these negative characteristics, the overall state of the securities market is encouraging [51], and the total trading volume on Kazakhstan Stock Exchange (KASE) in 2018 was US\$456 million (Table 5). The stock market and the “Securities of investment funds” sector constantly demonstrate positive dynamics. The securities of 383 names of 151 issuers were available for trading on the exchange, and the Central Depository has approximately 110 thousand personal accounts opened by individuals. The capitalization of the KASE stock market is constantly growing, which is associated with the expansion of the list of companies.

Some “blue-chip” securities in Kazakhstan are listed on the London Stock Exchange (LSE). In 2005, the first Kazakhstani companies to enter the LSE were KAZ Minerals and KazakhGold – the two largest producers of copper and gold in the country [52]. KAZ Minerals placed 26.2% of their shares at a price of £5.4 per security, and raised £661.4 million or US\$1.117 billion. By the end of 2005, the share price had risen to £7.74, and the company itself was included in the leading index of the Financial Times Stock Exchange 100 (FTSE 100). The stock price continued to grow for several years, and is currently valued at £630. The KazakhGold company managed to attain more than US\$196 million by selling 25% of their shares at US\$15 per share. In 2012, the company was delisted due to its takeover by PolyusGold, which became the owner of 93% of the capital [53; 54].

Table 5. *Trading volume on the KASE market in 2017–2018, millions of US\$*

No.	KASE market	2018	2017
1	Securities market, including:	10,382.5	3,954.2
	Shares	810.6	752.9

No.	KASE market	2018	2017
	Corporate securities	3,471.9	1,526.8
	State securities of the Republic of Kazakhstan (SS)	5,894.1	1,672.7
	Bonds of the Ministry of Finance	121.0	0
	Securities of investment funds	3.3	1.5
2	Foreign currency market	37,076.1	31,519.3
3	Money market, including:	408,408.5	249,040.1
	Repurchase agreement operations	222,038.9	171,858.7
	Currency swap transactions	186,369.6	77,181.4
4	Derivatives market	66.5	0.3
	Total trading volume	455,933.3	284,513.3

Note: conversion TO DOLLARS WAS MADE AT THE CORRESPONDING RATE OF 2017, 2018.

Source: [51].

In 2007, the Eurasian Natural Resources Corporation (ENRC) transferred 252.5 million new shares, or 20% of its share capital, to the LSE. Despite the onset of the global crisis, the share price showed an increase from £5.4 to £15.3 within six months. However, since 2010 the mining giant has been hit by a series of public scandals, after which the share price as of April 2013 was estimated at just £2.70. The company's delisting from the LSE was also accompanied by a scandal, and the owners of freely traded shares were unhappy with the proposed share repurchase price of £0.51.

In 2018, the largest uranium producer in Kazakhstan, Kazatomprom JSC, was listed. The National Welfare Fund Samruk-Kazyna, which owns the company, offered investors on the stock exchanges in London and Astana 15% of their shares, with a total value of US\$451 million. Demand exceeded stock offering by 1.7 times [54; 55], and the initial price of the share of US\$11 rose by a quarter, meaning that the state attained a 25% increase in the company's shares. In emerging markets, liquidity is usually 30–40%, in this case it was 60–80%.

However, the domestic stock market is not sufficiently developed. The portion of stock trade in total volume is only 8%, which is 2.375 times less than the volume of stock trading included in the FTSE 100 index. In addition, shares of some companies on the official list are not available on the market, among which are the securities of the largest firms that are leaders in Kazakhstani economy. The share of the secondary market in the turnover of the stock exchange is small and continues to decline. The main problem here is the predominance of contractual transactions. By presidential Decree of April 12, 2011, the Agency for regulation and supervision of the financial market and financial institutions was abolished, with the transfer of functions and powers to the National Bank. On May 14, 2019, Deputy Chairman of the National Bank Oleg Smolyakov said that it was decided to re-establish an independent body for the control and supervision of the

financial market and financial institutions. The Agency and KASE are taking measures to combat direct transactions, but their prevalence in the present remains high [56].

IPO market activity is low. Thus, approximately 7,000 large and medium-sized private companies and 1,000 large state-owned companies operate in Kazakhstan. At the same time, the KASE listing includes the shares of only 140 companies. Most transactions are made with the securities of a very limited number of issuers (about 10), mainly from the banking and mining sectors.

Experts writing in the *Financial Times* believe that Kazakhstani IPOs have rather high risks in case of change of ownership, privatization of enterprises, uncertainty of rate regulation, etc. [57; 58]. The goals of the “People’s IPO” were to establish new standards of corporate governance and neutralize the consequences of dubious privatization procedures in the 1990s, when business groups with which the ruling family of Kazakhstan was closely linked seized control of oil, metals, and financial assets. Currently, in the atmosphere of political dispute and discussions about this issue, the authorities are promoting the idea of public participation in the IPO. However, most people lack the necessary money and skills needed to invest in the local stock market.

A peculiarity of the development of the financial system of Kazakhstan is the uneven concentration of financial resources, which are mainly focused on the extractive industry and in two megacities – Almaty and Nur-Sultan. Investors often lack reliable and liquid instruments, and the real sector of the economy has not had enough investments to expand and develop its business. This problem is related to the reluctance of issuing companies to enter the stock market by placing their shares among third parties. Their entry would allow for the diversification and loading of the Kazakhstani securities market, as well as the attraction of investments to these companies.

Over time, great hopes were put on the Regional Financial Centre Almaty (RFCA) [59]. The program included a system of innovations in and improvement of the investment climate, and the transformation of the center into a leading site of Central Asia. However, the domestic market became an “appendage” of developed financial centers and was bypassed by internal investments into foreign markets.

In trying to change this situation, the government has created the Astana International Financial Center (AIFC), where the Astana International Exchange (AIX), a mortgage company, and insurance companies will be located. Banks, micro-credit institutions, Islamic Financing institutions, and others will open their offices, and all documentation will be maintained in English for easier integration into the global stock market. The strategic goal is to create a competitive financial hub that meets international standards, and that might enter into the top ten financial centers of Asia [1].

Thanks to AIFC, the stock market ecosystem has been built. For investors’ access to the exchange, 21 brokers provide services, among which are representatives of the UK, Eastern Europe, Russia, Hong Kong, and China. NASDAQ is one of the AIFC’s shareholders, and it has provided the trading platform. Today, AIX lists government securities, Eurobonds of the national railway carrier, bonds of private and quasi-public companies, shares, and global depositary receipts of domestic joint-stock companies. Kazakhstani companies have good experience in corporate business, but because of the

small market there are no large turnovers, so it is advisable to secure a footing in foreign markets, primarily in Central Asia, the EAEU, and the CIS.

3.5 The Domestic Stock Market: One of the Versions of Development

In our view, the future competitiveness of Central Asian economies will be determined by the level of development of the national stock market. In turn, the state depends on foreign direct investments, portfolio investments, and internal business environment – i.e., the stock market must be supported by domestic economic agents including domestic enterprises, business structures, and population. Today, the population, the so-called small investors, are practically not involved in the securities market.

The money market and the foreign exchange market mainly prevail in the stock market of Kazakhstan. The volume of trading in the primary market of government securities reached US\$5.894 million, of which US\$260 million were raised by the executive bodies of 14 regions at 0.35% per annum, within the framework of the state program of housing financing. The share of municipal bonds is about 4.5%, while in world practice it is much higher: in the USA – 11.5%, in France – 6.6%, in Japan – 6%, and in Russia – 6% [60–62].

It is important to note that municipal bonds have already appeared on the securities market as a one-time action to solve local problems. In 1999 they were first issued in the West of Kazakhstan in the Mangystau region, and the regional Akimat (local authority) became the first executive body in Central Asia to receive a credit rating from Fitch [63; 64]. Later the municipalities of the city of Almaty, the city of Astana, and the Atyrau region placed their loans on KASE.

However, this experience proved to be of little use since a limited problem was solved: investing in gas supply, water supply, and road construction. There were no truly innovative projects, and no funds from enterprises, financial structures, or household savings were used. Currently, the programs of “Affordable housing” and “Credit housing” are being implemented, but only the quasi-state National Managing Holding “Baiterek” participates in them, buying shares of local executive bodies.

To change this situation, we have proposed the launch of a municipal bond market for investing in socially significant programs in the regions, using the Turkestan region – Kazakhstan’s largest – as an example. As part of the study, the authors selected projects on infrastructure, domestic tourism, the processing of agricultural products, and creating effective clusters. These projects have not been implemented due to a lack of funding, but they are of great importance for the population of the region. Analysis of the resource capabilities of banks, financial institutions, and business structures of the region for participation in the formation of the stock market has been conducted. The volume of municipal bonds’ issuance is set at US\$110 million, which is 7% of the region’s annual budget.

A sociological study was conducted by means of questionnaires and interviews with specialists, experts, and select groups of the population in order to identify the possibilities of using spare money to buy municipal bonds [65]. A scheme of business-processes for organizing the issue and circulation of municipal bonds without using budget funds

has been developed. Calculations of bond yield and comparative analysis of them with corporate and government securities prove the practicality of their issue for building the stock market of the region. As of today, some of our proposals have been accepted by the local authorities for study with further implementation.

To strengthen the financial constituent of the region's economy, it is proposed to back up the issue of bonds with the tax load of local authorities or by municipal property. The Unified Pension Fund has huge resources, and it is not incidental that the media is constantly discussing its use. In recent years, the Government has twice voluntarily allocated significant funds from this Fund to support the liquidity of two or three large banks, although all banks in the country are private and operate within the same legal framework.

The insurance sector, which has total assets of more than US\$2.5 billion, or 1.9% of GDP, also displays interest in municipal bonds [66], as the survey showed that they were ready to invest in them. What benefits could the financial market receive? This is primarily the launch of instruments to stimulate the regional economy which meet the interests of the population, stimulate entrepreneurship, and involve local authorities as active players in the stock market.

4. Conclusions

1. The analysis showed that Central Asian countries are developing unevenly, and the existing prerequisites for regional integration were not employed. The main indices that reflect the progress of reforms, the state of scientific and technological development, and the ease of doing business display weak dynamics. These countries are relatively small in number, and the size of their economies is not very attractive to investors. In order to be more competitive in comparison with other countries of Asia, the Caucasus, and the Middle East, it is advisable for the states of the region to present themselves as a single economic territory.
2. The limited size of the domestic market, imperfect banking regulation, and the dependence of credit institutions on administrative intervention create difficulties for investors. Central Asian countries should collectively move towards improving the state regulation of financial markets, creating a business environment, and building a pool of local investors. It is also necessary to increase the trade-transport connectivity of the countries.
3. Kazakhstan is one of the countries with a limited domestic market, and financial opportunities depend upon world prices for resources. Despite the progress of reforms, investors lack reliable and liquid instruments, and the real economy does not have enough investment to expand business. Issuing companies are encouraged to actively enter the stock market, diversify and load the Kazakhstani securities market, and attract both business structures and the population to it. It is recommended to launch a municipal bond market for investing in socially significant programs in the regions.
4. Central Asian countries will benefit from financial integration. Usually, stock markets win based on the size of the economy, which reduces the expenses and cost of financial

products and develops competition. Regional financial schemes will allow countries to implement interstate projects in the fields of energy industry, water resources, logistics, agriculture, etc. The harmonization of business practice with regulatory systems of the banking and financial sectors will strengthen the investment potential of countries, accelerating the formation of the domestic stock market. All of this will contribute to closer cooperation between the Central Asian States and the free movement of goods, services, capital, and labor.

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